

NOV 1 1982

Dear Sir or Madam:

We have reviewed your application for recognition of exemption from Federal income tax under section 501(c)(7) of the Internal Revenue Code.

Information furnished shows you were incorporated under the general laws of the State of [REDACTED] on [REDACTED]. Your purposes include, in part, promotion of family awareness and unity by means of education, financial assistance and emergency aid; the conducting of tours, trips, and festivities to promote family unity; providing technical assistance to similar organizations or counseling and other related agencies; and lending to any person, firm or corporation, any of your funds, with or without security.

You are a membership organization. Membership is restricted to members of the [REDACTED] family, descendants of [REDACTED], their spouses and children. All adult members except [REDACTED] pay dues of \$[REDACTED] per month; [REDACTED] pays if she so chooses.

Your activities have included a family weekend trip, expenses for which were paid by your organization; fund raising events, including a dinner-theater outing and a bull-roast, the latter including a raffle and amusement devices operated for the purpose of fund-raising; cash gifts, cards, flowers and other gifts to family members and occasionally to friends of family members; in recognition of birthdays, funerals, illness and other occasions; and financial aid to [REDACTED] (a fuel assistance donation). You have also given one donation to [REDACTED], and two christmas baskets to needy families.

You have a commitment to provide scholarship funds for higher education for graduating family members, amounting to approximately one-half his or her tuition. You also plan a family meat cooperative, although no evidence was presented that this has been made operative.

Code	Initiator	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer
Surname							
Date			11/1/82				

[REDACTED]

Your activities are generally limited to members, except when held for the purpose of raising funds for your organization. On these occasions, tickets are sold to non-members. Currently, members pay the same price for tickets as do non-members, "to lessen the burden of taxing each member to sell more tickets," but you state that, when you become financially stronger, the requirement that members pay the same price may be changed.

Section 501(c)(7) of the Code exempts from Federal income tax clubs organized for pleasure, recreation, and other non-profitable purposes, substantially all of the activities of which are for such purposes, and no part of the net earnings of which inures to the benefit of any private shareholder.

In applying the term "other non-profitable purposes" the Service has long held and has been sustained by the courts that this means other purposes similar to pleasure and recreation.

Section 1.501(c)(7)-1(a) of the income tax regulations states that exemption under 501(c)(7) applies only to clubs which are organized and operated for pleasure, recreation and other non-profitable purposes, but does not apply to any club if any part of its net earnings inures to the benefit of any private shareholder. This section further states that exemption extends to social and recreation clubs which are supported by membership fees, dues, and assessments.

Section 1.501(c)(7)-1(b) states that an organization that solicits public patronage of its facilities is engaged in business and is not operated for pleasure, recreation and other non-profitable purposes. The bar against public use of a club's facilities exists because use of profits from the public to support activities for members constitutes prohibited inurement of benefit. (Rev. Rul. 58-589, 1958-2 C.B. 266.) The same would apply to solicitation of public patronage of the organization's activities.

The Congressional Committee Reports for the 1976 Tax Reform Act indicate it was intended that a social club be permitted, for taxable years beginning after October 20, 1976, to derive up to 35% of its income from non-member sources, as long as no more than 15% was derived from public use of its facilities. (Senate Report No. 94-1318, 2d Session, 1976-2 C.B. 596). If this percentage guideline is exceeded, the Service will look at all the facts and circumstances to determine whether the organization qualifies for exemption.

A profit motive is an important factor in determining whether income from the public jeopardizes exempt status. The Service has consistently held that a club may profit from non-member business if the income producing activities are incidental to and in furtherance of the purposes of the club. However, if the receipts from non-member sources continue for a long period of time, or are substantial in amount, the conclusion is justified that the organization is not operated for non-profit purposes.

Further, the Service has consistently held, and has been upheld by the courts in its position that an organization engaged in activities which are not themselves in furtherance of or incidental to social and recreational purposes is not exempt under section 501(c)(7). This includes payment of benefits to members. (Rev. Rul. 75-494, 1975-2 C.B. 214; Rev. Rul. 63-190, 1963-2 C.B. 212).

Your organizational document includes purposes that are not within the scope of section 501(c)(7), such as the purposes of providing financial assistance and emergency aid to members, and to lend money to any person, firm, or corporation, with or without security. Your intent to operate a meat cooperative would also be beyond the scope of 501(c)(7). Although you have not at yet loaned money, or operated a meat cooperative, you have in fact provided financial assistance and paid benefits to members.

Further, your receipts from sale of tickets to non-members (soliciting public patronage of your activities) constitute more than 15% of your total income, far in excess of the guideline of 15% established by Congress. These sales were made solely for the purpose of raising funds, or making a profit, and the profit from sales to the public were not offset by your charitable contributions. The bulk of these profits were in fact used to carry out activities for the benefit of members, thus reducing the cost to members of providing your recreational and financial benefits to members, constituting inurement of benefit.

Scholarships and other financial aid to individual members, likewise constitute inurement of benefit.

Because of your non-recreational purposes and benefits, your dealings with the public for profit, and evidence of inurement of benefit, you are not organized or operated for social, recreational or other non-profit purposes. You do not qualify for exemption under section 501(c)(7). Further, we do not recognize you as exempt under a related section of 501(c).

You are required to file Federal income tax returns for corporations (Form 1120) for each year of operation. The form for 1981 should be submitted to this office within 60 days. Future returns should be submitted in accordance with instructions for the return.

If you do not accept our findings, we recommend that you request a conference with a member of our Regional Office of Appeals. Your request for a conference should include a written appeal giving the facts, law, and any other information to support your position as explained in the enclosed Publication 892. You will then be contacted to arrange a date for a conference. The conference may be held at the Regional Office or, if you request, at any mutually convenient District office. If we do not hear from you within 30 days of the date of this letter, this determination will become final.

Sincerely yours,

District Director

Enclosure